ANNUAL REPORT 1938

THIRTY-SECOND
ANNUAL REPORT
Year Ending July 31, 1938

UNITED GRAIN GROWERS LIMITED

THIRTY-SECOND

ANNUAL REPORT

OF

UNITED GRAIN GROWERS LTD.

FOR THE

FISCAL YEAR ENDING
JULY 31st, 1938

PRINTED AT THE COMPANY'S PRINTING PLANT
THE PUBLIC PRESS LTD., WINNIPEG

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Calgary Office, Lougheed Building.
Saskatoon Office, 140 Avenue "A" South.
Edmonton Office, 810 McLeod Building.

439 Country Elevators in Manitoba, Saskatchewan and Alberta.
Terminal Elevators at Port Arthur and Vancouver.

Thirty-second Annual Report

of

United Grain Growers Limited

for the

FISCAL YEAR ENDING JULY 31st, 1938

Presented to the Annual Meeting of the Company held in Calgary, November 2nd, 1938

Report of the President
on behalf of the Board of Directors

In commencing this report your Board desires to express the thankfulness which prevails throughout Canada that there have been averted the horrors of war, which, so short a time ago, threatened to engulf the world; and also the heartfelt hope universally felt that the way may be clearing for peaceful solution of international troubles.

The reports to be laid before you, for the fiscal year which ended on July 31st, cover the thirty-second year of the Company's operations, and its twenty-first year under the name, United Grain Growers Limited.

Financial results from operations of a grain-handling company for the year in question were necessarily largely governed by crop conditions. It will be remembered that the province of Saskatchewan experienced in 1937 the most devastating crop failure in its history, with no return at all for millions of acres, while millions more produced little more than seed and feed for ordinary farm requirements. From the majority of points in the province there was no commercial grain to be handled. A large percentage of your Company's elevators in Saskatchewan were either closed completely, or remained open only to the extent necessary to co-operate with government authorities in distributing relief grain and supplies.

In Alberta, crop production although much better than in Saskatchewan, was poor, amounting to only approximately half of that of the current year. Most of your Company's elevators in Alberta were kept open in order to give required service to customers, although at a very large number of points there was an insufficient quantity of grain to be handled to permit financial results to be satisfactory.

In marked contrast to conditions in the other provinces, Manitoba had a satisfactory year in 1937-38. Farmers in that province produced a good crop and were able to take advantage of the excellent prices prevailing for both wheat and coarse grains, the price level to a considerable extent resulting from the crop failure in Saskatchewan. Your Company's elevators in Manitoba were well employed and did a large business.

The total wheat crop of western Canada in 1937-38 was only 159 million bushels, the smallest produced since 1914, and with much less than half the average yield per acre. Your Company's terminal elevators, therefore, had a very small handling. In addition, owing to the speed with which available supplies of grain were shipped out, and the fact that there was a very small carryover, storage revenue was at a minimum. Moreover, it must be mentioned that a considerable percentage of grain handled in your country elevators did not reach terminal elevators, but was absorbed either in local mills or in supplying seed or feed grain in crop failure districts. The Company's terminal elevator at Vancouver was idle during a considerable part of the year, since very little Alberta grain moved to market by the western route, but owing to market conditions and high ocean rates from Pacific ports moved east.

Under all these circumstances the Company was fortunate to be able to produce financial results considerably better than those of the preceding year. Profit on operations was sufficient to take care of bond interest and other necessary appropriations including depreciation on miscellaneous equipment and printing plant. After these appropriations were taken care of a few thousand dollars were added to the surplus account. Although payment of a dividend was not practicable, shareholders will not have forgotten that the total return to them in dividends in previous years amounted to more than $4,000,000, or more than $1,000,000 in excess of the paid-up capital of the Company. They will recognize the fact that payment of dividends is practicable only to the extent that the Company is able to operate at a profit, and that in turn depends upon satisfactory production conditions in the West, and the support given to your Company by producers.

BALANCE SHEET

In examining the Balance Sheet and the Profit and Loss and Surplus account, attention as usual will first be directed to the Company's working capital position.

Current assets amount to	$2,084,010.75
Current liabilities amount to	$1,070,455.48

This leaves an excess of current assets over current liabilities of $1,013,555.27. A working capital of over one million dollars is ample for the Company's operation, and it will be noted that Current Assets include $804,976.72 in cash, and that there are no liabilities to the Company's Bankers. It may be mentioned that during approximately five months of the financial year the Company operated without bank borrowing, and for a considerable period carried large amounts of cash on deposit.

Accounts and Bills Receivable amounting to $303,430.64 include advances secured by farmers' grain, storage charges and other accruals after providing for estimated doubtful accounts. The item of $35,060.95 owed by Provincial Governments represents amounts due against sales of feed, seed, and supplies on relief account. A large volume of business of this nature was, of necessity, done during the year.

The Grain Inventory amounts to $66,324.76. This is the smallest grain inventory the Company has ever carried in its elevators. It represents almost the minimum possible inventory of grain that can be carried in a large

number of country elevators, for small quantities of different grades have to be held until shipping quantities are available. Market conditions, including premiums on cash grain at terminal elevators, were such as to make it undesirable to carry grain on Company's account any longer than necessary. In consequence, grain in country elevators was moved forward to terminals and sold. These market conditions were due both to the small crops of all grains produced in western Canada in 1937, and to the fact that during the year the Canadian wheat carryover was reduced to minimum proportions. When the carryover was at its height in 1933, the Company ended the financial year with an inventory of 12,857,000 bushels, valued at $8,300,063.82.

The inventory of twine, coal, and sundry merchandise at $874,217.68 brings the total of inventories to $940,542.44. The inventory of supplies was larger than for the preceding year by a considerable amount, mainly because of a large supply of binder twine on hand for the new crop year.

Investments include memberships at $63,675.80; Mortgages and Agreements of Sale at $28,631.97, and other securities at $2,660.00, or a total of $94,967.77.

Deferred charges include Bond Discounts and Expenses, less amounts written off of $188,889.18, and Deferred and Prepaid Expenses of $52,706.67, or a total of $241,595.85. The item of Bond Discounts and Expenses is one that decreases from year to year as a proportionate amount is written off of the discounts and expenses incurred when the Company's Bond Issues were sold.

The item of Bonds Purchased in Anticipation of Sinking Fund Requirements amounts to $209,221.70, representing the cost of acquiring the Company's own bonds of a par value of $222,000.00. In accordance with the terms of our Trust Deed we are required to purchase and retire each year a certain proportion of outstanding bonds. From time to time as market conditions are favorable the Company is accustomed to anticipate its needs in this connection. The price of bonds fluctuates both with general business conditions and with the varying rates at which investors can place their money. At one period when interest rates were high, it was possible to buy some of the Company's bonds as low as $66.00 per hundred while during this past year the same bonds reached par on the open market.

Capital assets which include country and terminal elevators, sites, warehouses, printing plant, machinery, office and other equipment, amount to $10,928,330.62. Against this depreciation reserves have been provided to the amount of $4,472,575.80 so that capital assets are carried at a net amount of $6,455,754.82. During the past year depreciation was not provided on the elevator system, but only on miscellaneous equipment and the printing plant. The large amount of depreciation set up against capital equipment in earlier and more prosperous years enables the Company quite properly to omit providing depreciation in a year such as the past when earnings were small. The high percentage rate of depreciation provided to date, over 40 per cent, means that our capital assets are being carried on a very conservative basis, especially considering the excellent condition in which elevators have constantly been maintained. Analysis of the depreciation item shows:—

	Book Value	Depreciation	Net Value
Country elevators, cottages, warehouses, sheds, sites, etc.	$ 6,991,635.08	$3,073,952.98	$3,917,682.10
Terminal elevators and equipment	3,072,260.45	776,086.27	2,296,174.18
Printing plant and equipment	542,233.61	366,326.83	175,906.78
Miscellaneous equipment including office furniture and fixtures	322,201.48	256,209.72	65,991.76
	$10,928,330.62	$4,472,575.80	$6,455,754.82

The Publication Establishment Account, $93,275.93, represents the net figure at which the cost of establishing The Country Guide and Nor'-West Farmer is carried. Capital assets in all are carried at a total figure of $6,549,030.75, and total assets amount to $9,178,826.82.

On the liabilities side of the balance sheet the total current liabilities as already mentioned, amount to $1,070,455.48, and this amount includes no bank obligations whatever.

Accounts Payable and Accrued Liabilities amount to $1,008,886.61. This covers a considerable quantity of binder twine, for which payment was not yet due in terms of contracts for purchase.

Bond Interest Accrued amounts to $18,828.35; Shareholders' Dividends of Prior Years Unclaimed to $14,680.62, and Property, Corporation and Other Taxes to $28,059.90.

The Capital Debt represented by First Mortgage Sinking Fund Bonds outstanding amounts to $2,886,000.00. A year ago it stood at $3,083,500.00, so that the reduction of capital debt during the year amounted to $197,500.00. In 1929, just after the Company's principal bond issue had been made, the capital debt, which then included some mortgages in addition to the bond issues, amounted to $5,126,938.69. The reduction during the past nine years has therefore been $2,240,938.69, or something more than 43 per cent. Series "A" bonds, five per cent, due January 2nd, 1948, were originally issued in amount of $3,750,000.00, and series "B" bonds, five and one-half per cent due May 1st, 1948, in the amount of $750,000.00, a total of $4,500,000.00. Of these there are now outstanding in the hands of the public, bonds to a par value of $2,664,000.00, after allowing for repurchased bonds in the treasury of the Company to a par value of $222,000.00.

Series "C" bonds, four and one-half per cent, due January 2nd, 1949, were issued last year in the amount of $600,000.00, of which bonds to the amount of $15,000.00 have since been cancelled. This issue has not been sold, but has been kept in the treasury of the Company, available for financing whenever business conditions make it advisable for the Company to dispose of them.

The outstanding Capital Stock of the Company amounts to $3,189,371.30. There are amounts unpaid totalling $16,528.70 against a subscribed and issued capital of $3,205,900.00.

The shareholders' equity in the Company is represented by:

Paid-up Capital Stock	$3,189,371.30
General Reserve of	1,710,282.22
Capital and Earned Surplus of	322,717.82
This makes the total Shareholders' Equity	$5,222,371.34

countries where economic and political reasons may bring about a reduction.

The United States would probably reduce its acreage less under a new agreement than would be the case without one. There is nothing to indicate that Argentina could be bound by agreement now any more than was formerly the case. Russian wheat export could certainly not be brought under control.

Moreover, restricted production of wheat in Canada would be dangerous to the British Empire as a whole. It would weaken the position of the United Kingdom, which in case of war might find no other available source from which foodstuffs could be bought and transported to Great Britain. Recent alarms should have brought about a realization that, whatever reductions in wheat growing take place elsewhere, the British Empire could not afford to see any major reduction in Canada.

Consideration of all the factors must lead to the conclusion that the interests of western farmers cannot be served by any programme of restricted production, but rather emphasis must be placed on efforts to enlarge markets.

What ultimate developments may take place in the international wheat market will depend upon political developments, not now foreseeable, in different parts of the world. For the immediate present Canada's proper course seems clear. It is to keep on growing wheat, and the highest quality wheat possible. It is to keep the cost of production as low as possible, both by sound agricultural methods and sound national policies. It is to keep on selling wheat so as to secure a maximum possible share of the world's markets and to make intensive efforts to promote the use and sale of wheat and other agricultural products. Dominion Government assistance must in the national interest be continued in the same way as was done this year when the wheat producers' ability to carry on is threatened by disastrously low world prices in order that Canada's great enterprise of growing wheat for export may be preserved.

THE LATE G. E. ROOSE

The Board of Directors desires to place on record its deep sense of the loss sustained through the death, on August 19th, 1938, of Mr. Gus E. Roose, of Camrose, Alberta, who for nine years had been a Director of the Company.

During his term of office he gave at all times loyal and conscientious service to the organization, and gained for himself the admiration and respect of all his fellow Directors.

The shareholders of the Company will no doubt desire to be associated with the expression the Board has already made to his bereaved family of grateful appreciation of the valuable services rendered by him to the Company, and sympathy to them in the loss which they have experienced.

(Continued on page 23)

UNITED GRAIN GROWERS LIMITED

Consolidated Balance

ASSETS

Current Assets:			
Cash on Hand and in Banks		$ 804,976.72	
Accounts and Bills Receivable		303,430.64	
Including advances secured by farmers' grain, storage charges and other accruals after providing for estimated doubtful accounts.			
Provincial Government Accounts re Sales of Feed, etc., for Relief Purposes		35,060.95	
Inventories:			
As determined and certified to by responsible officers of the Companies:			
Grain	$ 66,324.76		
Stocks of grain which are net after deducting storage tickets outstanding, etc., valued at July 31, 1938, as to terminal stocks at closing market prices and as to country stocks on the basis of market quotations adjusted for handling and carrying charges.			
Twine, Coal and Sundry Merchandise	874,217 68	940,542.44	
At cost.			$2,084,010 75
Investments:			
Memberships		$ 63,675 80	
(Market July 31, 1938—$59,260.00)			
Mortgages and Agreements of Sale		28,631.97	
Other Securities—Common Stocks		2,660.00	
At book values			94,967.77
Deferred Charges:			
Bond Discounts and Expenses		$ 188,889.18	
Less amounts written off.			
Deferred and Prepaid Expenses		52,706 67	
			241,595.85
Bonds Purchased in Anticipation of Sinking Fund Requirements:			
First Mortgage Bonds:			
Series "A," due 1948, par value $156,500.00 at a cost of		$ 148,324.20	
Series "B," due 1949, par value $ 65,500.00 at a cost of		60,897.50	
			209,221.70
Capital Assets:			
Country and Terminal Elevators, Sites, Warehouse, Printing Plant, Machinery, Office and Other Equipment		$10,928,330.62	
At cost subject to the inclusion of $456,768.33 representing the balance of the amount by which elevator properties were written up in 1926, and $30,000.00 representing the book value of the Company's timber limits.			
Less—Reserves for Depreciation		4,472,575 80	
		$ 6,455,754.82	
Publication Establishment Account			
Establishment costs of "The Country Guide and Nor'-West Farmer"—Net		93,275 93	
			6,549,030.75
			$9,178,826 82

Approved on behalf of the Board of Directors:

R. S. LAW
D. G. McKENZIE } *Directors*

Auditors' Report to the Shareholders:

We have made an examination of the books and accounts of United Grain Growers Limit
information and explanations which we have required.

The quantities and values of the stocks of grain, twine, coal and sundry merchandise have
all accounts considered doubtful. The securities covering the investments in memberships, stocks
cash in banks has been confirmed by certificates obtained by us direct from the Companies' bankers.
taken up on the books as at that date.

No amount has been added to the reserves for depreciation accumulated as at July 31, 1937,
machinery, and, on this basis, we report that, in our opinion, the above consolidated balance sheet
affairs, according to the best of our information and the explanations given to us and as shown by

Winnipeg, October 15, 1938.

AND SUBSIDIARY COMPANIES

Sheet, July 31, 1938

LIABILITIES

CURRENT LIABILITIES:			
Accounts Payable and Accrued Liabilities		$1,008,886 61	
Bond Interest Accrued		18,828.35	
Shareholders' Dividends of Prior Years Unclaimed		14,680.62	
Property, Corporation and Other Taxes		28,059.90	
			$1,070,455.48
FIRST MORTGAGE SINKING FUND BONDS:			
Authorized	$7,500,000.00		
Issued:			
Series "A," 5 per cent., due January 2, 1948		$3,750,000.00	
Series "B," 5½ per cent., due May 1, 1949		750,000.00	
Series "C," 4½ per cent., due January 2, 1949		600,000.00	
		$5,100,000.00	
Deduct—Bonds Redeemed and Cancelled through Sinking Fund:			
Series "A," 1948	$1,345,000.00		
Series "B," 1949	269,000.00		
Series "C," 1949	15,000.00		
	$1,629,000.00		
Series "C," 4½ per cent., due January 2, 1949, held in Treasury	585,000.00	2,214,000.00	
			2,886,000 00
CAPITAL RESERVE AND SURPLUS:			
Capital Stock:			
Authorized—200,000 shares—par value $25.00			
Subscribed—135,098 shares	$3,377,450 00		
Less—6,862 shares forfeited, now held in Treasury	171,550.00		
		$3,205,900 00	
Deduct—Amounts unpaid		16,528.70	
		$3,189,371 30	
General Reserve		1,710,282 22	
Capital Surplus:			
Arising from forfeiture of capital stock: Balance at credit July 31, 1937	$22,359 59		
Deduct—Adjustment relative to additional forfeitures and re-allotments during the year	30.98		
		22,328.61	
Earned Surplus:			
In terms of separate statement		300,389.21	
			5,222,371.34
			$9,178,826.82

ed and its Subsidiary Companies for the fiscal year ending July 31, 1938, and have obtained all the

been certified to by responsible officers of the Companies and adequate provision has been made for
and bonds, have been produced for our inspection or verified by certificates from the depositaries, and
We have taken reasonable care to satisfy ourselves that all liabilities at July 31, 1938, have been

in respect of depreciation for the current year on country and terminal elevator buildings and
as at July 31, 1938, is properly drawn up so as to exhibit a true and correct view of the Companies'
the books of the Companies.

PRICE, WATERHOUSE & CO., Auditors.

UNITED GRAIN GROWERS LIMITED AND SUBSIDIARY COMPANIES

CONSOLIDATED STATEMENT OF PROFIT AND LOSS AND EARNED SURPLUS, JULY 31, 1938

PROFIT for the year ending July 31, 1938 before charging or providing for the undernoted			$254,613.40
Deduct:			
Interest on Bonds		$151,615 85	
Directors' Fees		8,291 00	
Total Amount Paid as Counsel and Legal Fees and Salaries of Executive Officers Represented by Directors of the Parent Company actively engaged in the Management		29,558.32	
Annual Meeting Expense		16,729.83	
Provision for Depreciation on Printing Plant, Miscellaneous Equipment, etc.		33,250.80	
NOTE—No depreciation has been provided on country and terminal elevator buildings and machinery for the year ending July 31, 1938.			
Proportion of Bond Discounts and Expenses Written Off	$19,878.00		
Less—Profit Arising from Redemption of Company's Bonds During Year	12,497.25	7,380.75	246,826.55
Profit for the year after providing for the above			$ 7,786.85
SURPLUS—Balance at Credit July 31, 1937			296,602.36
			$304,389 21
Less—Provision for Dominion and Provincial Taxation			4,000.00
EARNED SURPLUS July 31, 1938			$300,389.21

(*Continued from page 19*)

CONCLUSION

The Board wishes to acknowledge the business delivered to the Company by its many thousand customers, for it is on the patronage of farmer customers that the success of the Company depends. Tribute must be paid to the highly efficient service given by a loyal staff. That has been the case not only during the past year, but over a long period, and such service has enabled the Company to meet successfully the difficulties of a period of low crop production in the West.

Thirty-two years have now elapsed since your Company was organized in 1906 as The Grain Growers' Grain Company. Just twenty-one years have passed since it assumed its present form, when farmer owners decided to amalgamate The Grain Growers' Grain Company and the Alberta Farmers' Co-operative Elevator Company, to form a greater farmers' institution, United Grain Growers Limited.

The Company has not only been a business success, but far more important, it has carried out the purpose of the founders to improve conditions under which farmers' business is handled, both in selling grain and in buying many commodities. And also of importance is the fact that it has been able to act as a representative on behalf of farmers' interests, from its founding to the present time. The record of the years has justified the wisdom of the founders of this farmers' institution.